



HAWAII COMMUNITY  
FOUNDATION

## **Hawai'i Nonprofits, 2006**

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One Fabric, Different Threads



## **INTRODUCTION**

The nonprofit industry in Hawai'i has long been an essential element of the rich fabric of our island lives. From celebrating our diverse cultures to protecting the environment of our fragile islands and caring for our kupuna and keiki, nonprofits strengthen our communities and our way of life. We depend so much on this industry, and yet until recently very little was known about its size, diversity and scope.

Hawai'i Community Foundation recognized the need for this information in order to develop a strategy to increase the vitality and strength of the industry. In 2001, the Foundation released the landmark "Hawai'i Nonprofits 2001" study, the first comprehensive study of the industry in Hawai'i and one of the first of its kind in the nation.

In the previous study, it was revealed that the nonprofit industry employed more than seven percent of all workers in Hawai'i (outside of agriculture), and accounted for about \$1 billion in total wages. In all, 41,000 people were employed by the industry, which was also supported by 18,000 volunteers. Revenues generated by the industry exceeded \$2 billion. For the first time, it was revealed that nonprofits in Hawai'i play a major role in the state's economy.

Five years later, Hawai'i Community Foundation again teamed with SMS Research to conduct a follow-up study profiling the current state of local nonprofits.

## **STUDY OBJECTIVES**

This report seeks to provide accurate and comprehensive data about today's nonprofit industry and how it has changed since 2001.

We expect that this ongoing research will help raise public awareness of the industry and the important role nonprofits play in Hawai'i's economy. The complexity and diversity of the state's nonprofits is not well understood and this study begins to describe its landscape, helping organizations recognize where they fit and where challenges around competition or opportunities for collaboration might occur.

Hawai'i Community Foundation also plans to disseminate the results of the report broadly to encourage continued discussion and research in the field. In particular, the Foundation will seek to create forums for discussion with key stakeholders in the field such as board members, nonprofit leaders, business leaders, elected and appointed government officials, and foundations, all of whom play unique and important roles in supporting the work of nonprofits, now and in the future.

Finally, the study will be used to inform Hawai'i Community Foundation's own efforts to build the organizational and leadership capacity of the industry. This strategy has been a central part of what HCF has led and supported over the past decade and we expect that the study will help refine those programs by clarifying the current challenges facing Hawai'i's nonprofits.

## **METHODOLOGY**

In order to provide a detailed, comprehensive look at the state of the industry, as well as management practices, governance and leadership challenges facing nonprofits in Hawai'i today, this study employed three distinct phases of research.

Initially, a dataset of annual tax filing information was obtained from GuideStar. This dataset included all nonprofit organizations that had filed a Form 990 in Hawai'i between 2002 and 2005 (1,694 organizations). Form 990 returns are filed by organizations that have revenues greater than \$25,000. Religious organizations are not required to file, although some do. This dataset was used for extensive secondary analysis and was also the basis for the second phase, which was a mail-out survey. In

addition to the GuideStar dataset of most recent tax filings, annual tax filing data from National Center for Charitable Statistics was used to look at trends over time. Several other secondary data sources were also used to complement the picture provided by tax filing sources.

In order to expand what was available in the tax filing data, a comprehensive, self-administered survey was mailed to all organizations in the dataset. The initial mailing was followed by a postcard reminder and a second mailing. In the end, 343 surveys were received for a response rate of 22 percent and an overall margin of error of  $\pm 4.73$  percent.

Finally, in order to add context and depth to the quantitative data, one-on-one interviews and focus groups were conducted with executive directors and nonprofit leaders from a wide range of organizations. Unless otherwise noted, the data presented in this report is based on the GuideStar dataset and the 2006 survey.

## SCOPE OF THE INDUSTRY

There are currently 5,188 nonprofit organizations in Hawai'i that have registered with the IRS. Of those, 2,076 filed a Form 990 with the IRS<sup>1</sup>. Those that did not file are mostly small with operating budgets less than \$25,000 annually, or religious organizations and churches that are not required to file. Throughout this study we focus on the 2,076 organizations that filed the Form 990.

In 2001 the important role Hawai'i's nonprofit industry played in the state's economy was first revealed. The economic contribution of Hawai'i's nonprofits is still quite large. In all, nonprofits in Hawai'i spend about \$3.8 billion each year, which represents nearly eight percent of the state's gross domestic product. This is a higher percentage than what is spent in the nation as a whole, and also higher than the 2000 percentage for California. While Hawai'i's nonprofit industry spends less per capita than California's, at \$3,018, the state is well above the per capita spending for the nation.

### Economic Contribution of Hawai'i's Nonprofit Industry

	Hawai'i <sup>2</sup>	California <sup>3</sup>	United States <sup>4</sup>
Expenses Per Capita	\$3,018	\$5,824	\$2,438
Total Expenses	\$3.8 billion	\$84 billion	\$686.5 billion
Percentage of GDP	7.6%	6.3%	6.9%

Economic census figures show that nonprofit employment has increased by 21 percent between 1997 and 2002, with the industry employing about 48,500 people statewide in 2002<sup>5</sup>. This places the nonprofit industry as the fifth largest non-agricultural employer in the state and accounts for about eight percent of the state's workforce.

Approximately \$1.45 billion dollars in wages were paid to nonprofit employees, accounting for about seven percent of all wages paid in the state which is similar to what was seen in the last study.

Growth in the industry has been strong with a 21 percent increase in jobs between 1997 and 2002 (the two most recent economic censuses). Similarly, wages increased by 32 percent during that period. Three-quarters of all nonprofit jobs are in Health and Social Assistance.

<sup>1</sup> National Center for Charitable Statistics (NCCS), [http://nccsdataweb.urban.org/tablewiz/tw\\_bmf.php](http://nccsdataweb.urban.org/tablewiz/tw_bmf.php)

<sup>2</sup> Hawai'i population data from DBEDT Data book, Hawai'i Gross State Product - US Dept of Commerce (2004)

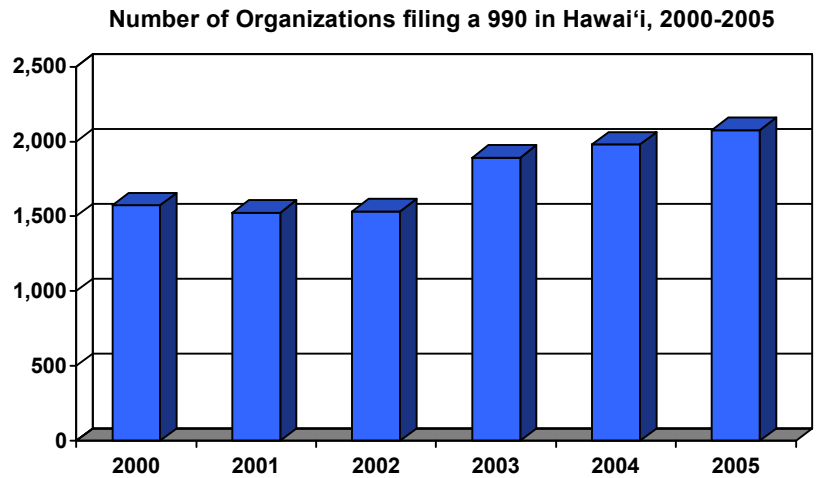
<sup>3</sup> Gammal, Simmard, Hwang and Powell, "Managing Through Challenges: A Profile of Bay Area Nonprofits, Stanford Graduate School of Business (August 2005), p19.

<sup>4</sup> Ibid.

<sup>5</sup> 1997 and 2002 Economic Census for civilian and non-government jobs. <http://www.census.gov/econ/census02/>  
US Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov)) for government and military

The current number of organizations in the state represents a large increase that has occurred in the past decade. Compared to the number of organizations filing a tax return in 2000, there has been a 31 percent increase.

A large jump in organizations occurred between 2002 and 2003. This pattern was seen nationwide and reflects the unparalleled number of new nonprofits that formed in response to the terrorist attacks of September 11, 2001. Due to the way the fiscal year is defined, these additional organizations only began to show up in GuideStar data in 2003.



**Number of Nonprofits by County, Population, and Number in Poverty**

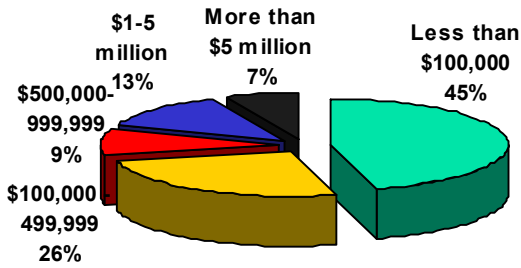
	Number of Nonprofits	Ratio per 1,000 population	Ratio per 100 in poverty
Honolulu County	1,419	1.62	1.72
Hawai'i County	281	1.71	1.30
Maui County	268	1.93	2.97
Kaua'i County	108	1.74	1.23
State Total	2,076	1.68	1.71

This current total of 2,076 organizations represents a ratio of 1.6 nonprofits per 1,000 residents in the state<sup>6</sup>. Honolulu County accounts for 71 percent of the population in the state, and 68 percent of the nonprofits are located there (1,419). Hawai'i County accounts for 13 percent of the population and is the home base of 14 percent of the nonprofits (281). Maui County has the highest ratio of nonprofits as the county has 11 percent of the population, but 13 percent of the nonprofits (268). Kaua'i County has five percent of the state's population, and five percent of the nonprofits (108). The distribution of nonprofits across the state is very even; however, when compared to the number of people living below the poverty line in each county, Maui outpaces the other counties.

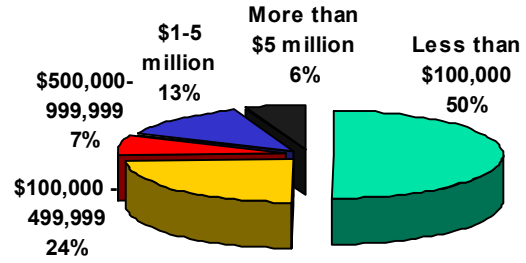
Most of these organizations are quite small, and two-thirds have annual expenses of \$200,000 or less. Accordingly, most of the growth seen has been in these smaller organizations, and mostly on Oahu.

<sup>6</sup> Population and poverty data from American Community Survey, <http://factfinder.census.gov>

**Organizations by Revenue Level - 2000**

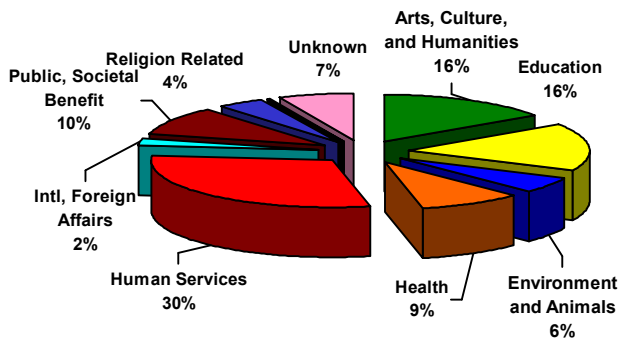


**Organizations by Revenue Level - 2005**



Only 14 organizations in Hawai'i have annual expenses over \$50 million. These include Hawai'i Pacific University, Punahou School, Kamehameha Schools and the state's hospitals. Since these 14 organizations have average annual expenses of \$152 million each, compared to about \$1 million for all other organizations, in this study, we report medians instead of averages, or leave the top 14 organizations out of the analysis.

**Types of Organizations by NTEE code**

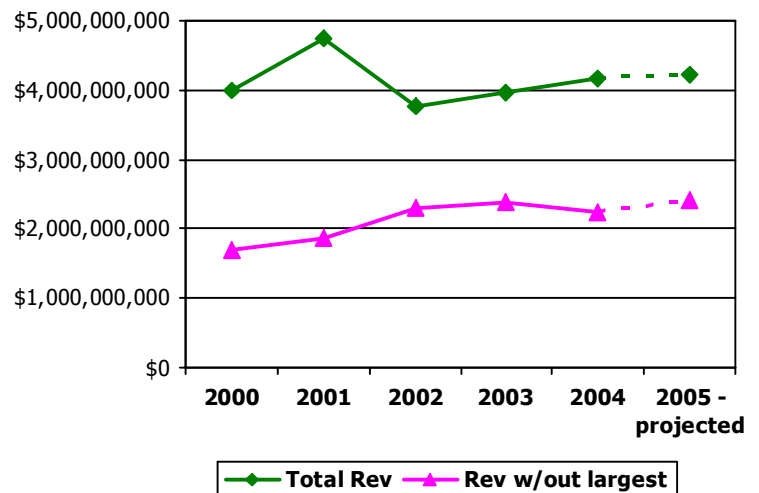


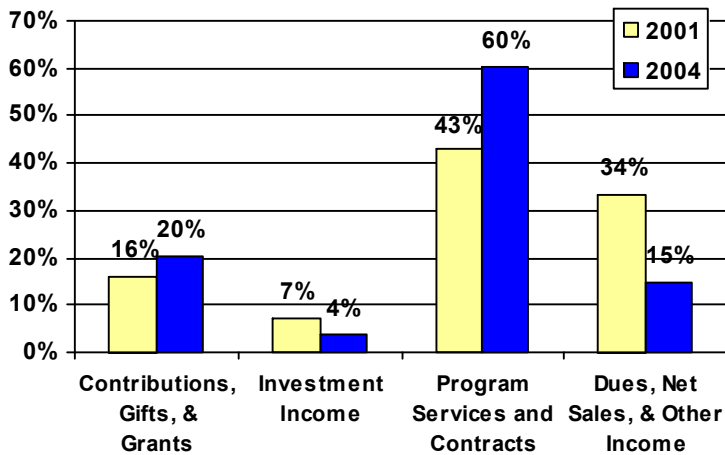
The majority of the organizations filing a tax return are in the Human Services field (30 percent). Education and Arts are the second largest fields at 16 percent each.

Overall, the distribution of organizations is similar to what was seen in 2001. However, there has been some growth in Human Services and Education. Arts, Culture and Humanities and Health have decreased slightly.

Total revenues for the industry have increased by only five percent since 2000. However, as seen previously, the largest 14 organizations in the state account for about half of all the revenues, so changes in these organizations can mask real trends in the industry. The pink line in this chart shows that for all of the other organizations in the industry, revenue has increased by 32 percent. Because of the rapid growth in the number of organizations, the average revenue per organization has only increased by about five percent. This means that Hawai'i's nonprofits now have less purchasing power when considering cost of living increases over this period.

**Change in Revenue, 2000-2005**



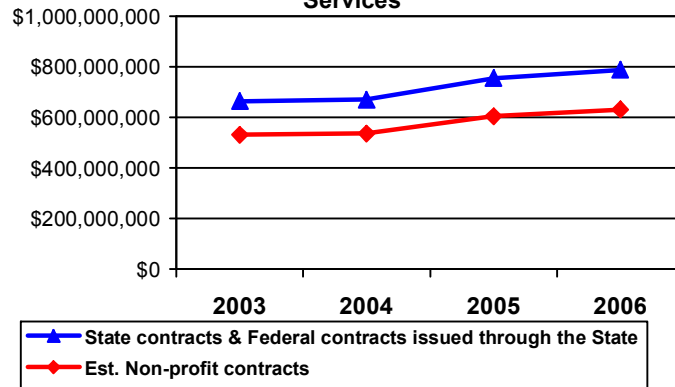


Most of the increases in revenue have come from program service fees and contracts. Although this data is not yet available for 2005 and 2006, is it likely that the trend has continued and will show even greater increases in funds especially from government contracts.

The data also show that the increases in revenue have not occurred evenly across the industry. In fact, among smaller organizations, increases in revenue have not kept pace with growth in the number of organizations.

State contracts have also been on the rise, with an increase of 19 percent between 2003 and 2006<sup>7</sup>. Interestingly, the number of contracts has not changed much – so it is in the size of individual contracts where the growth has been seen. This indicates that the larger organizations are being awarded larger amounts while an increasing number of smaller organizations are left competing for smaller pieces of the pie. In interviews, many executive directors confirmed that they felt competition was increasing.

**Growth in State Contracts for Health and Human Services**



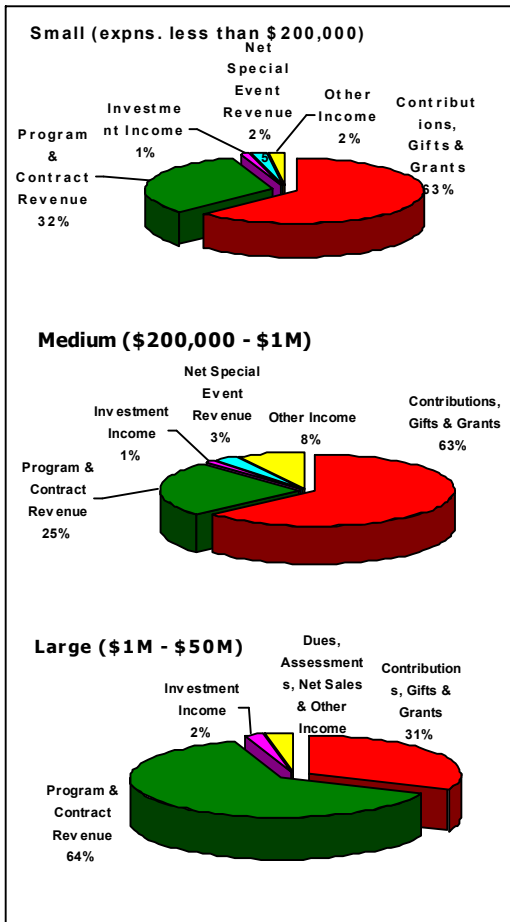
Overall, very little of the industry’s revenue comes from foundation giving. In 2004, total revenues for the industry totaled \$4.17 billion with about \$71.6<sup>8</sup> million of those revenues coming from foundations. To put this in perspective, Hawai’i Community Foundation grants account for only about \$20 million.

For most organizations, revenue comes primarily from program service fees and contracts. The proportion of revenues from programs and contracts has been steadily rising over the past few years. Funding from government agencies is found both under “contracts” and “contributions,” depending on the purpose of the funds. The funding is classified as a “contribution” if it encourages the organization to carry out its exempt purpose and does not provide the funder with any benefit other than incidental.

<sup>7</sup> Source: State of Hawai’i Office of Procurement Web site

Note: Not all state contracts for Health & Human Services go to nonprofits, therefore SMS estimated that 80 percent of all contracts make up the nonprofit contracts line.

<sup>8</sup> Source: The Foundation Center – Statistical Services



Among small- and medium-sized organizations, the lion's share of funding comes from contributions, gifts and grants. Organizations focusing on international affairs, public/societal benefit and environmental issues are the most reliant on contributions, gifts and grants.

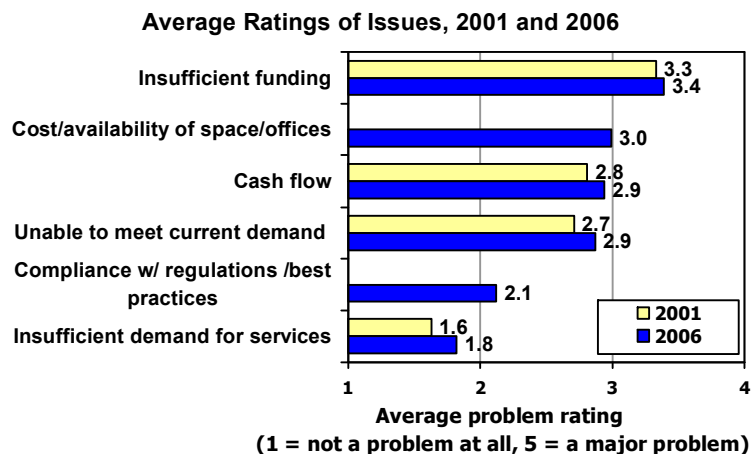
For most of these organizations about three-quarters of all funding is from these sources. The Arts and Humanities and Human Service sectors rely on contributions, gifts and grants for about half of their revenues. Health organizations generate most of their revenue from program service fees and contracts.

Education-related organizations differ from the rest in that 40 percent of their revenues are generated from dues, assessments, net sales and other types of revenue.

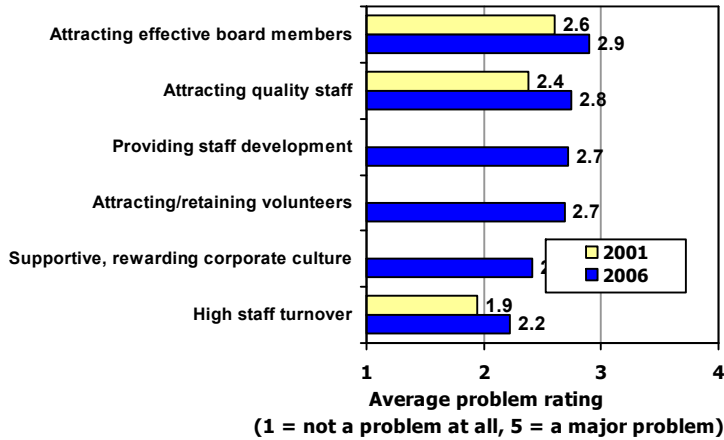
This variation in revenue sources by sector was also noted in the previous study.

## CURRENT CHALLENGES

Not surprisingly, most organizations rate funding and cash flow as their biggest problems. However, a new issue that is taking on more importance in Hawai'i is the high cost and limited availability of space. This problem is especially pertinent in the Arts and Humanities sector as well as Education and Human Services. Executive directors in the discussion groups echoed this concern, and mentioned that even if they can find funding to bring on support staff, they have no space in which the new staff can work.



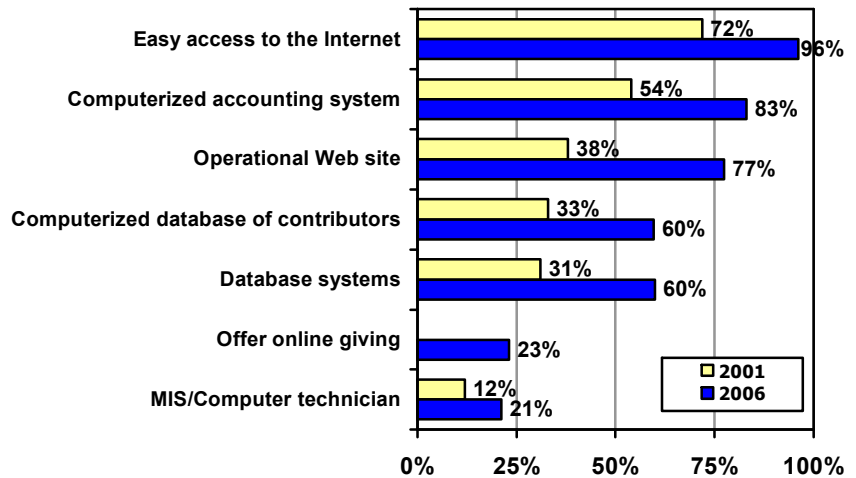
**Average Ratings of Issues, 2001 and 2006**



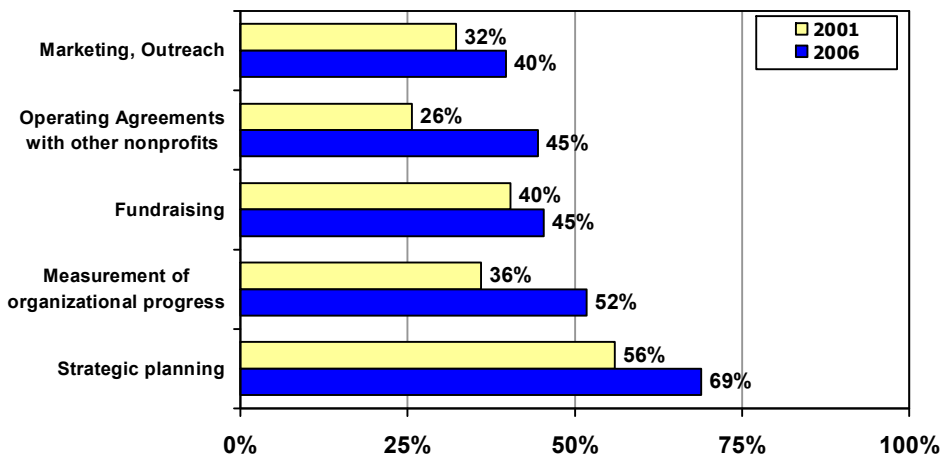
Among human resource issues, attracting effective board members and quality staff are the biggest issues. While these are concerns for most organizations, the problem is most notable for Education and Environment nonprofits. Arts and Culture-related organizations also have more trouble recruiting board members. Difficulty attracting quality staff is more of an issue for Environment organizations than any other type.

There has been a significant increase in the use of all technology measured since 2001. In 2001, less than three quarters of all organizations had access to the Internet. This year's study revealed that only four percent were without access to the Internet. There has also been a 39 percent increase in the number of nonprofits with a Web site. Increased use of technology is particularly interesting considering the difficulty of obtaining funds for technology and infrastructure needs.

**Use of Technology, 2001 and 2006**



**Use of Formal Evaluation and Planning, 2001 and 2006**



In all areas except fundraising, there was a significant increase in the use of formal planning and evaluation strategies. Most organizations now have a strategic plan, and about half are measuring their progress in a variety of ways. This increased professionalism has been driven by the requirements of larger contracts and grantors and by the availability of grants to support its development.

## CONCLUSIONS

While this summary report only begins to scratch the surface of the study findings, several major themes have emerged that bear consideration.

Consistent with the findings in 2001, it is clear that the industry has sectors that differ greatly based on the revenue mix in their field as well as size. We must resist the temptation to oversimplify this complex industry and treat all nonprofits as if one size fits all.

There has been considerable growth in the number of nonprofits in Hawai'i but the growth in revenues among nonprofit organizations has not been shared by all. With the revenue increase over the last five years fueled mostly by program service fees and contracts that are largely the creation of government policy, Health and Human Service organizations that rely on this revenue source, and especially those that are larger, have been the ones who have seen the most growth. In contrast, small organizations have seen competition for dollars intensify as growth in the number of small groups has significantly outpaced revenues.

Depending on size and revenue profile, organizations will need to consider adapting to these competitive pressures by diversifying their revenue mix, strengthening their capacity around key revenue components such as fundraising, carefully shepherding growth to avoid increasing financial strain and looking for opportunities for outsourcing, partnerships, joint ventures and mergers to contain expenses or expand services.

The overall growth in the industry, coupled with increasingly higher demands of staff and board leadership and the aging demographics of that leadership, reveal that the competition for talent will be similar to the competitive pressures for revenue. Half of the executive directors of nonprofits in Hawai'i are over 55 and recruiting good board members is one of the toughest challenges for organizations.

For both volunteer and paid leadership, organizations should consider strategies that will help encourage continuity in leadership when appropriate. For executive directors, key components to whether they remain in the job will focus on compensation as well as workload issues; these are clearly areas in which boards can be proactive. Similarly, boards need to think about how they structure their work so that board members feel engaged and that their work is meaningful and efficient.

While succession strategies for staff and boards must focus on recruitment of younger leadership talent, it should not be overlooked that the baby boomers represent a potential resource of experienced volunteer and paid capacity that could be attracted by more meaningful work if flexible work conditions and compensation can be provided.

These themes as well as others raised by the study's results will be explored further in future publications and presentations.